

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS
TO NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
(USPS/NAA-T1—41-57)

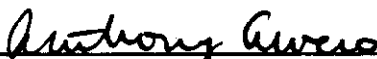
Pursuant to rules 25 and 26 of the Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to Newspaper Association of America witness Tye: USPS/NAA-T1—41-57.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/NAA-T1-41. Please refer to your testimony at page 3, lines 5-8, where you state: "this reasoning ignores the by-now generally accepted principle that heavily work-shared subclasses will have high cost coverages precisely because of the cost avoidance from worksharing."

- a. Please provide citations to Commission Recommended Decisions, testimony from this or previous ratemaking dockets, or Decisions of the Postal Service Board of Governors which articulate this "generally accepted principle."
- b. Are you aware of any efforts on the part of the Postal Service or other parties to postal ratemaking proceedings to lower the "high cost coverages" for "heavily work-shared subclasses?" If so, please provide citations to such proceedings.
- c. Is it your testimony that §3622(b)(6) should be interpreted to mean that the more worksharing a customer performs, the higher the cost coverage assigned to that customer's mail should be? If so, please provide citations to legal decisions or Commission Recommended Decisions to support this contention. If not, please reconcile this position with your statement from page 3 of your testimony.

USPS/NAA-T1-42. Please refer to your testimony at page 3, lines 11-14, where you state: "The proposed lowering of ECR cost coverage, as with the proposal to cut the pound rate, appears to be part of an ongoing effort to divert ECR mail from private enterprise competitors, and should be rejected by the Commission." Do you believe that in any circumstance in which the Postal Service attempts to lower a rate, either on the basis of a lowered cost due to postal efficiency or in the interest of fairness within a subgroup of postal prices, and that rate is for a portion of mail for which private competition exists, the Commission should interpret this proposed rate reduction as "part of an ongoing effort to divert ... mail from private enterprise competitors" and should reject such proposals?

USPS/NAA-T1-43. At page 3, lines 18-22, of your testimony, you state that the Commission should adopt rates for ECR that "at least maintain the unit contributions established in Docket No. R97-1 using the Commission's cost attribution methodology, after adjusting for actual 1999 costs, and sufficient to ensure that the cost coverage or markup index does not decline in absolute or relative terms". Is it your testimony that the Commission should adopt this recommendation as a general principle for all subclasses of mail? If not, please provide a list of the subclasses to which this general principle should not apply, and provide rationale for why they should be treated differently than you have recommended for ECR.

USPS/NAA-T1-44. Please refer to your testimony at page 24, lines 3-5. You state:

However, [witness Mayes] has since retreated from the only objective consideration she could offer as to why ECR coverages should be reduced. Moreover, she has completely ignored another measure - unit cost contribution -that shows that ECR would continue to make a far smaller contribution than First Class mail.

- a. Is your reference there to all Standard Mail A ECR (i.e., commercial and nonprofit ECR)? If not, please provide the correct subset of ECR mail to which your statement applies.
- b. Is your reference there to the entire First-Class Mail class, including the Letters and Sealed Parcels subclass and the Cards subclass? If not, please provide the correct subset of First-Class Mail to which your statement applies.
- c. Do you claim that, except for the application of the Private Express Statutes to First-Class Mail, the two subsets of mail to which your responses to subparts (a) and (b) refer are to be considered equivalent for purposes of establishing unit contribution?
- d. Is it your testimony that every subclass of mail should make the same unit contribution as First Class Mail? If so, please provide the basis for this conclusion. If not, please identify the subclasses which would not be required to make the same unit contribution as First Class Mail.
- e. Please confirm that §3622(b) does not make reference to unit contributions. If you do not confirm, please provide a citation to such reference.

USPS/NAA-T1-45. At page 24 of your testimony, you criticize the Postal Service based on your claim that it is abandoning the use of cost coverages as a tool to manage the desired rate relationships between ECR and Regular Standard Mail A subclasses and offer the "simple solution" of raising the cost coverage for ECR. Please confirm that if the only consideration were to "manage the desired rate relationships between the ECR and Regular subclasses," one alternative would be to lower the cost coverage for the Regular subclass.

USPS/NAA-T1-46. At page 26, lines 8-9 of your testimony, you state that:

the Postal Service is proposing to shift more of the institutional cost burden to a monopoly subclass (First Class) from a competitive subclass (ECR). Ms. Mayes confirms that First Class markup index is going up at Tr. 11/4347-48 (Mayes). She argues 'the shift of some of this institutional burden to First-Class Mail, particularly in view of the relatively small increase in First-Class Mail rates, was not viewed as unfair.' Tr. 11/4350 (Mayes).

- a. Please confirm that the statement from Tr. 11/4350 is preceded by the following sentence: "In the current case, in deference to criterion 4, it was necessary to moderate the cost coverages for several subclasses of mail

- which experienced substantial increases in costs in order to moderate the impact on mailers, as measured by percent increase in rates.”
- b. Please confirm that ECR was not one of the subclasses to which moderation of rate increases in deference to criterion 4 was extended.

USPS/NAA-T1-47. Please refer to your testimony at page 32, lines 3-10, where you state:

I shall refer to the ratemaking process as described by the Postal Service witnesses as ‘top down.’ This version of the Postal Service’s process starts with target cost coverages determined by witness Mayes, followed by witness Moeller designing rates given the target cost coverages as constraints. I suggest, however, that the real process was a bottom up process, where the Postal Service first determined the rate levels it desired, and then derived the cost coverages necessary to achieve that result... All the evidence points to this conclusion.” [footnote omitted]

- a. Please confirm that the “top down” process was described in the responses of witness Mayes to interrogatories NAA/USPS-T32-3 and GCA/USPS-T32-8, as well as at Tr. 11/4491-92 and in response to Presiding Officer’s Information Request No. 12, Question 1. If you do not confirm, please explain fully.
- b. Please confirm that your reference to “all the evidence” at line 10 is limited to the results of this process and not to other documentation of this process as suggested in your statement. If you do not confirm, please provide all evidence, including rate design workpapers, transcripts of conversations, copies of slides or other presentations, and alternate rate proposals suggesting that the process was as you have described.

USPS/NAA-T1-48. Please refer to your testimony at page 36, lines 11-16. You state:

The Postal Service fails to account for shifts in the distribution mail volume...due to proposed changes in rate design.... As a result, it overestimates the percentage increase in ECR revenues per piece that will be realized at its proposed rates in the test year.

Please confirm that witness Tolley provides individual forecasts for eight subcategories of ECR volume. If you do not confirm, please provide the correct number.

USPS/NAA-T1-49. Please refer to your testimony at page 39, lines 3-7, where you state:

some categories (*i.e.*, piece-rated nonletters in the High Density category) are forecasted to experience an increase in rates simultaneously with an increase in volume, while other categories (*i.e.*, pound-rated nonletters in the Saturation category) are forecasted to experience a decrease in rates and a decrease in volume.

- a. Please confirm that the price for the aggregate category, High Density nonletters, went down from TYBR to TYAR. If you do not confirm, please provide a correction to the previous statement.
- b. If you confirm that the price for the aggregate category, High Density nonletters, went down from TYBR to TYAR, please confirm that you would expect to see the volume for the aggregate category go up from TYBR to TYAR, all else equal. If you do not confirm, please provide a correction to the previous statement.
- c. Please confirm that Dr. Tolley and Mr. Thress did not forecast volumes for subcategories of the aggregate category, High Density nonletters. If you do not confirm, please provide the forecasts of those volumes.
- d. Please confirm that, in the absence of forecasts of the subcategories, witness Moeller used existing distributions to spread the aggregate volumes to the subcategories.

USPS/NAA-T1-50. Please refer to your testimony at page 42, lines 2-5, where you state: "It is important to consider unit contributions. First, they highlight the actual contribution being made by the average piece. This can facilitate comparisons among similar subclasses. Second, unlike cost coverage percentages, unit contributions are not distorted by the differing degrees of worksharing among the various subclasses."

- a. As you have performed a comparison of unit contributions for the aggregate categories of First Class and ECR on page 41 of your testimony, is it your contention that these are "similar subclasses"? If not, please explain why it was appropriate to use unit contribution as a means of comparison. If so, please explain how these subclasses may be viewed as "similar," providing details regarding their physical, legal and market characteristics. Also, please identify all characteristics that you believe lead these subclasses to not be "similar."
- b. Please confirm that equalizing unit contributions for subgroups of mail with disparate unit costs will result in different cost coverages for those subgroups of mail. If you do not confirm, please explain fully.
- c. Please confirm that at page 18 of your testimony, and elsewhere, you criticize witness Moeller for not designing rates that equalize, or at least bring closer together, the cost coverages for subgroups of Standard A mail (*e.g.*, Standard A Regular piece-rated and pound-rated pieces). If you do not confirm, please provide an alternate explanation for your testimony at page 18.

- d. If you have confirmed parts (b) and (c) above, please explain whether the Commission should be attempting to equalize unit contributions or cost coverages.

USPS/NAA-T1-51. Please see your testimony at page 45, lines 1-9, where you discuss ECR volume increases. Please provide estimates of revenue and volume growth for newspaper advertising that competes with Standard Mail (A) ECR over the same time period.

USPS/NAA-T1-52. At page 46, lines 4-7, of your testimony, you state: "Effects on competitors cannot be determined simply by comparing 'the test year before and test year after rates forecasts of postal volumes for each subclass or rate category for which volumes were forecasted.'" Given your belief that this is inadequate for assessing the impact on competitors, please provide an alternative approach to this assessment and provide your conclusions, fully supported by statistical or financial backup, as to the impact of the proposed rate increase for ECR on competitors. If your response includes forecasts of volumes or revenues, please also indicate exactly what portion of the change in volume or revenue is due to postal pricing decisions, and what portion is due to other factors.

USPS/NAA-T1-53. On Page 50 of your testimony, you refer to "rational relationships among ECR and other subclasses."

- a) In your opinion, are the ECR cost coverages recommended by the PRC in Docket Nos. MC95-1 and R97-1 rational?
- b) In your view, was the Commission's recommended ECR pound rate element of 66.3 cents in Docket Nos. MC95-1 and R97-1 "fair and reasonable" in each instance? Please explain your response.

USPS/NAA-T1-54. On page 52 of your testimony, you state:

As the Commission recognized in Docket No. R97-1, raising the cost coverage of ECR creates more "headroom" for a desirable rate differential between ECR basic and the 5-digit automation.

Provide the citation to the Commission's R97-1 opinion that supports your statement. Please quote the relevant language.

USPS/NAA-T1-55. On page 52 of your testimony, you state:

Combining an increase in the extra ounce rate for monopoly First Class Mail and a decrease in the pound rate for competitive ECR Mail has the effect of decreasing volume from the first and increasing volume in the latter.

- a) Confirm that pound rated pieces overall will receive a rate increase under the USPS proposal.
- b) Identify the percentage change in rate for pound-rated ECR saturation pieces.
- c) Identify the "competitive ECR mail" to which you refer, with reference to specific weight increments and rate categories within ECR.
- d) Identify and provide copies of all analyses that you considered in drawing this conclusion.

USPS/NAA-T1-56. On page 52 of your testimony, you state:

Rate increases in competitive subclasses will increase the net contribution to institutional cost and also arrest the past increases in volume of competitive classes due to diversion from private enterprise competitors

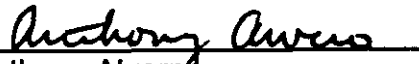
- a) Identify the "competitive subclasses" and "private enterprise competitors" to which your statement refers.
- b) Are there any subclasses for which there is competition to which your statement does not refer? If so, please identify.
- c) Please confirm that if the "competitive subclasses" have an own-price elasticity greater in absolute value than one, this statement may not be true.
- d) Does this general statement implicitly have a logical conclusion that sets some limit on the rate increases for competitive subclasses, or should rates for competitive subclasses be set at some maximum level? Please explain.
- e) What quantitative data did you consider in drawing this conclusion? Provide relevant citations and figures.
- f) Explain how a "rate increase" "arrests" a past increase in volume.
- g) Does your statement assume that increases in volume for "competitive classes" come at the expense of private sector competitors?
- h) What proportion of increases in volume for competitive classes come at the expense of private sector competitors?
- i) Do you believe that past increases in ECR volume necessarily came at the expense of private enterprise competitors, or could these be attributed to other factors, such as, for example, growth in the overall economy, new entrants in the advertising market, and changes in customer preferences for advertising medium?
- j) Identify and provide all analyses that you considered in drawing the conclusion in subpart (h).
- k) Do you believe that the markets for ECR and its competition are growing or not growing? Please explain your response.

USPS/NAA-T1-57. Please refer to your Appendix B at lines 14-15 of the first page where you state: "[Bernstein's] rate would generate a flood of low-rated

advertising mail at the expense of higher rated First Class mail." Please confirm that witness Bernstein's model takes as a constraint that the Postal Service achieve a breakeven financial position.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


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